

00894

1987/10/21



~~UNCLASSIFIED~~ Confidential

United States Department of State
Bureau of Intelligence and Research

Intelligence Research Report

R

Zhao Ziyang Defines "Chinese-Style Socialism"

IRR No. 127 - October 21, 1987

DEPARTMENT OF STATE		IS/FPC/CDR <u>12/11/96</u>	Date: <u>12/11/96</u>
<input checked="" type="checkbox"/> RELEASE	<input checked="" type="checkbox"/> DECLASSIFY	MR Cases Only:	
<input type="checkbox"/> EXCISE	<input type="checkbox"/> DECLASSIFY	EO Citations	
<input type="checkbox"/> DENY	<input type="checkbox"/> IN PART		
<input type="checkbox"/> DELETE Non-Responsive Info		TS authority to:	
FOIA Exemptions		<input type="checkbox"/> CLASSIFY as <input type="checkbox"/> S or	
PA Exemptions		<input type="checkbox"/> DOWNGRADE TS to <input type="checkbox"/> S or	



~~UNCLASSIFIED~~ Confidential

Confidential

**Dissemination Control
Abbreviations**

**NOFORN (NF)
NOCONTRACT (NC)
PROPIN (PR)
ORCON (OC)**

**Not Releasable to Foreign Nationals
Not Releasable to Contractors or Contractor/Consultants
Caution—Proprietary Information Involved
Dissemination and Extraction of Information
Controlled by Originator**

~~CONFIDENTIAL~~ UNCLASSIFIED

United States Department of State
Bureau of Intelligence and Research

(U) Zhao Ziyang Defines "Chinese-Style Socialism"

Intelligence Research Report

No. 127
October 21, 1987

~~(LOU)~~ Summary

China's reformers are attempting to deflect conservative attacks by strengthening the ideological underpinnings of past and proposed reforms. The proposition that China is in an "initial" or early stage of socialism in which limited pursuit of capitalist-style economic, social, and political activities are necessary to create material abundance is central to this effort. These ideas are closely associated with Premier and acting CCP General Secretary Zhao Ziyang and will figure prominently in his work report to the 13th Party Congress, which opens October 25.

Zhao Ziyang is finding it difficult to sell the new ideological line, in part because it lacks moral suasion and theoretical clarity. Bureaucrats threatened by reform can easily find orthodox arguments against it. The "initial stage" theory asserts that China is and ought to be a socialist state, but effectively redefines socialism to allow a substantial reduction in the role of central planning; expansion of commodity, labor, capital, and other markets; and significant diminution of party involvement in economic, cultural, and social activities. This pragmatic approach is only marginally better than no ideology in allaying concern that the reform program will undermine China's socialist system.

* * * * *

~~CONFIDENTIAL~~ UNCLASSIFIED
Declassify: OADR (Suettinger, R.)

~~CONFIDENTIAL~~
UNCLASSIFIED

- 2 -

(U) Contents

	<u>Page</u>
Background	3
Need To Restabilize Leadership as Base for Reform	3
Propaganda Reform	5
Ideology and Politics	8
Economic Reform	10
Plan Versus Market	11
Ownership	12
Distribution	12
Political Reform	13
Prospects	15

UNCLASSIFIED

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

- 3 -

UNCLASSIFIED

(U) Background

Since mid-May, when Zhao Ziyang told propaganda workers to do a better job of promoting reform, a ream of articles has appeared on the "initial stage [chujī jieduan] of socialism." Xinhua and the foreign press have translated this term as "initial" or "early," and China Daily has used "elementary." Party elder Bo Yibo has spoken of moving from "immature" to "mature" socialism. Thus, "early" seems to convey best the nonpejorative sense of "just starting out." This is the connotation in a number of articles stressing that this stage is not a well-defined "first" in a series of stages through which every socialist country would pass. The first stage of socialism for a developed nation would look quite different, and even among less developed socialist nations, each process of development would be in some ways unique. Thus, China is not prescribing policy (or ideology) for any other country by introducing this concept.

The September 28, 1987, edition of Liaowang claimed that the third CCP plenum in December 1978 "achieved the understanding that China is still at the initial stage of socialism," but there was no public mention at the time. The official announcement that China is in the initial stage of socialism was first made in 1981 and repeated briefly without elaboration in party documents in 1982 and 1986. Nonetheless, the concept is now being touted as an important breakthrough in Marxist theory central to the reform program. Xinhua on September 2 declared that the "most outstanding achievement" of the past nine years has been "the discovery, out of a clear understanding that China is currently in the early stage of socialism, of a socialist road with distinct Chinese characteristics."

(C) Need To Restabilize Leadership as Base for Reform

By expounding at length on this concept now and turning it into an official political ideology, the reformers hope to restabilize the leadership by creating a consensus behind Zhao as Deng's new successor and preeminent interpreter of the proper approach to reform. They also want to reassure both the Chinese public and interested foreigners that the political crisis of early 1987 is past. On National Day (October 1), Zhao told foreign experts that "some foreign friends and Chinese comrades are not sure whether the introduction of such flexible policies by a socialist country has a reasonable basis

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~
UNCLASSIFIED

- 4 -

or whether they are compatible with the nature of socialism. The forthcoming congress will try to answer these questions theoretically."

Zhao's willingness this year to take the lead on ideology may reflect a hard lesson learned from Hu Yaobang's fall. By encouraging "emancipation of mind" and theoretical pluralism, Hu spurred factional polemics and popular confusion and left himself open to charges that he did not fulfill his mandate to uphold orthodoxy. As a result, Hu's fall left the radical reform agenda--drafted under Zhao's close supervision and set forth in the preamble to the seventh Five-Year Plan (1986-90)--vulnerable to attack as capitalist.

Seeking safety in the political center, Zhao and his supporters now hope that the initial stage concept will fill the ideological vacuum and will distance them from radicals who question the value of socialism and are impatient at the slow pace of progress, as well as weaken orthodox critics who oppose experimentation with capitalist ideas and methods. This centrist stance does not mean the reformers are truly so unbiased. Zhao himself has defined China's goal as a "mixed-market economy with a strong role for government," and the National Day editorial in People's Daily proclaimed leftism the source of China's biggest mistakes and still the principal danger. The initial stage theory provides the basis for another antileft drive if and when the reformers reconsolidate their political position.

One Hong Kong press report hints that Zhao may enshrine the initial stage concept in the CCP Constitution as well as in the work report. Either would strengthen his hand in attaining three goals:

--In the field of ideology, attacking "ossified" views and replacing their dogmatic proponents in the propaganda apparatus with younger reform theorists--an essential step in consolidating power.

--In the field of economic reform, removing the ideological and political strictures that have prevented progress toward drafting a comprehensive reform package. This goal has eluded reformers ever since Zhao in early 1982 told the fledgling Economic System Reform Commission to draft an overall plan, similar to the document that guided the 1968 Hungarian reform. In a recent article given authoritative play in People's Daily and Red Flag, Liu Guoguang (a senior economic consultant on Zhao's work report) admitted there was debate on this issue and claimed there was growing consensus on the need to draft a comprehensive theoretical model or "target pattern" to guide China's development.

~~CONFIDENTIAL~~
UNCLASSIFIED

~~CONFIDENTIAL~~

- 5 -

UNCLASSIFIED

- In the field of political reform, legitimizing discussion of the failings of the current system and opening the way for policies and laws that genuinely limit the party-state monopoly, beginning in areas most clearly obstructing economic progress.

Propaganda Reform

(C) Zhao Ziyang has sought to carry on Hu Yaobang's effort, albeit in a less provocative manner, to loosen the strictures on thought and policy posed by the "four cardinal principles" (the preeminence of CCP leadership; socialism; Marxism-Leninism-Thought of Mao Zedong; and the people's democratic dictatorship). In 1986, in the process of drafting a party resolution on ideology and culture, Hu's followers had tried to set conditions on what has become the post-Mao orthodoxy:

- party leadership must be correct to deserve support;
- Marxism (implicitly emphasized over Leninism and "Mao Zedong Thought") must be constantly updated as a scientific guide rather than serve as a dogmatic restriction on policy;
- policies can be flexible so long as China's system remains "basically" socialist;
- the "people's democratic dictatorship" must become more democratic and must be enshrined in law.

(C) The discussions prompted by Hu soon led to urgent demands for radical change in ideology and politics, resulting in a backlash. In the early 1987 campaign against "bourgeois liberalization," conservatives reasserted a strict defense of orthodoxy. Zhao's exploration of the initial stage theory is an effort to modify orthodoxy in a more acceptable manner, positing a more gradual approach to change under the premise of social stability. The theory is billed as the basis for Zhao's new "two point" political line--the compatibility and equal necessity of both the four cardinal principles and reform.

(LOU) The "initial stage" concept may well have been foreshadowed in the post-Stalin years. Implying that Chinese Marxists have deluded themselves with utopian ideals, it represents the essence of periodic efforts to debunk Soviet-inspired and Maoist economic policies as premature utopian "leaps" or "transitions" to a socialism characterized by highly centralized mandatory planning and a "product exchange" economy without markets, commodities, or a nonstate sector. But the exact meaning and policy implications of the initial stage

~~CONFIDENTIAL~~

UNCLASSIFIED

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

- 6 -

theory, beyond reminding everyone that China is poor and backward, are open to varied interpretations. Economic leaders like Chen Yun see it as an expedient justification for a temporary liberalization of economic policies, especially to revive rural markets, so as to create a breathing space for economic recovery.

(LOW) Thus conceived, the theory is an orthodox extension of Lenin's New Economic Policy of the early 1920s and the 1956 eighth CCP Congress line, which declared an end to large-scale class struggle and insisted that all efforts should be focused on economic construction. China's aborted second Five-Year Plan, as originally drafted in 1956-57 by Chen, continued to pursue Soviet-style central planning but modified the Soviet model to give higher priority to development of agriculture and light industry and a longer timeframe for catching up with the developed world. Whenever China's more orthodox leaders could limit Maoist efforts to leap into communism, they returned to this model, as in 1961-62 and 1977-81.

(U) Radical reformers today, however, interpret the initial stage to mean that China must experience a century or more of economic development before aspiring to genuine socialism. This interpretation is a theoretical garnishing of Deng Xiaoping's simple truth that "socialism is not pauperism." The bolder theorists have admitted that a semicommercialized economy like China's cannot altogether pass over the historical stage of capitalism and have sought acceptable ways to address the implications. Zhao's group is now claiming that it is the task of early socialism to accomplish in 100 years what it took capitalism in the West 300 years--creation of a flourishing commodity economy allegedly neither capitalist nor socialist in and of itself. To do so, China must allow the use of similarly "neutral" methods--taxes, prices, planning, and markets--as well as the existence of a private sector and management of enterprise by individuals or collectives (all anathema to Mao Zedong). The hallmark of China's "socialist commodity economy" must be realism in policy goals and tolerance of pluralistic interests, social groups, economic forms, and cultural and political views.

(C) As theory, the initial stage concept is a rather thin reed. The gaps in logic and distortions of fact are readily apparent, judging from readers' questions being published in the press. Proponents of the theory tend to avoid the question of why socialism rather than capitalism would be better suited to this task of enhancing productivity. Implicitly and illogically, they ask readers to accept on faith that China needed to collectivize the entire economy during the transition to socialism in the 1950s in order to create a system of public

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

- 7 -

UNCLASSIFIED

ownership, but now needs to reprivatize parts of it during the initial stage of socialism in order to modernize.

(C) Of course, the beauty of the new orthodoxy is not its logic but its usefulness. It allows Zhao Ziyang to adopt a centrist stance in opposing both rightists who suggest China try capitalism if it wants to "make up the missed capitalist lesson" and leftists who criticize reform by clinging to old-style Soviet or Maoist dogma.

(U) Reformers underscore that in the initial stage of socialism, the question of transition to a higher stage is not only irrelevant but dangerous. The whole point is to avoid premature advance. Thus, they put off the question of how China's eventual mixed economy would evolve into developed socialism, with less communism, both still defined in rather orthodox terms. As to when this would happen, the common view is mid-21st century, when Deng Xiaoping has predicted that China will achieve a "middle-level" of development, defined as a per capita income (PCI) of \$4,000 (in 1980 equivalency). Others, seeking more flexibility, aim for the time when China achieves a PCI equal to that earned or produced in 1980 in the advanced industrial states. One well-known radical reform theorist, Wu Jiang, for example, wrote that:

...maybe it will take us most of the 21st century to build the perfect form of socialism. After the perfect form of socialism is accomplished, will we be able to begin immediately the transition to communism? And under what conditions can we announce the transition to communism? It is even harder to give an accurate answer now. Although history will inevitably advance toward communism, the concrete historical process will be a complicated formula which includes many variables at home and abroad. At present, we cannot make any predictions, and there is no need to debate these questions too soon.

(C) There has been minimal effort to find orthodox precedents for the initial stage theory, although both Lenin (1921) and Mao (1956) briefly toyed with similar concepts. The first major People's Daily article launching the discussion of the theory in Zhao's name was published June 19, the 30th anniversary of Mao's article "On the Correct Handling of Contradictions Among the People." By neither mentioning the anniversary nor attempting to depict the new theory as a development of the Thought of Mao Zedong, the article pointed to competition between Mao's emphasis on class struggle and egalitarian social goals and the new focus on economic productivity and well-being as the central concern for China.

~~CONFIDENTIAL~~

UNCLASSIFIED

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

- 8 -

(C) Zhao may have wanted to avoid the obviously self-aggrandizing approach of Hu Yaobang, who on the CCP's anniversary in 1986 implicitly set himself up as China's leading theoretician by publishing his article, "On Correct Handling of Contradictions Within the Party." Some observers nevertheless have picked up on the contrast between Zhao's views and those of the late Chairman. One article in the Chinese press dubbed his banner a new "two whatevers"--"whatever theories and policies obstruct development of productive forces should be discarded; whatever theories and policies promote the development of productive forces should be put into practice." This epithet is an obvious dig at Mao's erstwhile successor Hua Guofeng, who proposed upholding "whatever" were Mao Zedong's theories or policies.

Ideology and Politics

(d) Zhao's eschewing of orthodox precedents indirectly makes his main point--that past orthodoxy should serve present policy, not the reverse. It is noteworthy, however, that Deng Xiaoping's authority has not been attached to Zhao's ideological campaign. Although Deng clearly gave the green light for "speeding up" economic reforms and continuing the discussion of political reforms, he has not been quoted with regard to their ideological underpinnings, despite the mention of the "initial stage" in party documents in 1981, 1982, and 1986. The National Day editorial this year neglected to mention the concept, suggesting it still lacked full endorsement. Without Deng's intervention, it seems unlikely that Zhao will be any more successful than Hu Yaobang in either controlling or winning the ongoing dogfight among the competitors for control over propaganda.

(LOU) Perhaps reflecting a stalemate, China's communist "priesthood" has stepped forward to make known its continuing reservations about Zhao's interpretation of theory. In an academic forum held in late July to discuss the "initial stage" theory, a number of conservative interpretations were offered:

- the Marxist-Leninist classics should be the only source for interpreting stages of socialism;
- although China's level of development might be low, its rapid growth rate suggests it is at a more advanced stage of development; and
- "superior" socialist production relations cannot be ignored as criteria for assessing the stage of China's development.

(LOU) Heated debate apparently took place August 25 at a national forum on Mao Zedong's philosophical thought, held to

~~CONFIDENTIAL~~

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

UNCLASSIFIED

- 9 -

commemorate Mao's June 1957 article as well as his 1937 articles "On Practice" and "On Contradiction." The meeting was sponsored by the Central Party School--a stronghold of orthodoxy--and reports in the school's theoretical journal gave the impression that all the participants praised Mao's articles as glorious contributions to Marxism and judged that Mao's thought is still relevant as an "ideological weapon for upholding the four cardinal principles and the theoretical foundation for carrying out reform and opening to the outside." This is an implicit argument for retention of the old framework and methods of elderly ideologues--Hu Qiaomu and Deng Liqun--who still oversee propaganda work.

(U) A Guangming Daily report on the forum gave quite a different impression, however. The Daily claimed that a few brave participants had pointed out that Mao had borrowed heavily from Stalinist textbooks in his three articles and had made obvious logical and factual errors. The author of the report baldly judged the forum as a whole, however, lacking in both frankness and relevance.

(C) It would seem that acceptance of Zhao's variant of Marxism will be heavily dependent on a willingness to accept his leadership, his policies, and his appointees to oversee ideology and propaganda. In this context, it was an ill omen that at the time of the conservative forum in August, several theorists involved in ideological revision were under pressure to resign from the party. Closest to Hu Yaobang, they have also been useful to Zhao.

(C) Su Shaozhi, whose view in 1979 that China was not yet socialist or at most had "underdeveloped socialism" foreshadowed Zhao's current approach, has since been forced to resign as head of the Institute of Marxism-Leninism-Mao Zedong Thought. The institute, which normally would have cosponsored such a forum, was in danger of being absorbed by the Central Party School, which has sought to cripple its competitor ever since the institute's founding. Yan Jiaqi retained his post as head of the Political Science Institute largely because Zhao seconded him to the Congress document drafting group. The attack on these intellectuals represents an ongoing effort to undermine the remaining members of Hu Yaobang's faction, probably including Hu Qili, who had led the efforts in 1984-86 to take over responsibilities for propaganda from Hu Qiaomu and Deng Liqun.

(C) The conservatives' "hit list" originally included not only other advisers linked to Hu and used by Zhao but also Zhao's secretary, Bao Tong, who along with younger proteges in the Economic System Reform Commission has been rumored to be one of Zhao's candidates for higher office in the party. Zhao's staffers likely aspire to membership on the Secretariat

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~
UNCLASSIFIED

- 10 -

and various CCP staff and research offices now controlled by Deng Ligu. Reflecting the continuing tussle, an August 28 Guangming Daily article complained that reform theory is an unresolved problem area, one that "must be solved ahead of others in speeding up reforms." Recent reports that Deng Ligu will take Hu Qiaomu's place as the Politburo member in charge of ideology do not bode well for an early or complete resolution of this issue in Zhao's favor.

Economic Reform

(c) Comprehensive economic reform has been on hold for the past two years, largely because of continuing leadership disagreement over not just pace and method but also the goal of reform--a guided market economy or an improved planning economy. Zhao's efforts to defend himself and to redefine a middle ground have been reflected in some versions of official documents on Hu Yaobang's fall. These documents make Hu a scapegoat for the upsurge in consumerism and construction that sent the economy out of control in early 1985. The Chinese leadership has focused attention on consolidating reforms and introducing measures further to stabilize the economy. These measures have included popularizing the contract management system in enterprises and tightening control of prices, banking, and credit. Meanwhile, efforts to increase supplies of important items and of exports have been aimed at easing the pressures of scarcity. Recent public comments by Premier Zhao and other top officials point to a continuation of this approach through 1988. There is particular concern about rapidly rising food prices, with real inflation rates in major cities approaching 13 percent. New agricultural reform policies may emerge next year to address the problem.

(d) It would appear that one result of Hu Yaobang's fall has been to intensify the fear of failure among reformers, who will above all want to avoid social instability and political recrimination at a time of leadership change. Lacking is the political will that would be required to introduce the coordinated set of price, banking, and tax reforms drafted in 1986, and to ride out the temporary problems until equilibrium is restored.

(e) The tense political environment at the top has heightened disagreements among economic advisers regarding the best policy mix for the next stage of reform. Despite agreement on the goal of the "initial" stage of socialism--development of a commodity economy through use of some "capitalist" methods to enhance productivity--specialists are much less united on the exact policy implications for the three areas on which the Chinese usually focus in defining socialism: planning, ownership, and distribution of income.

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

- 11 -

(U) Plan Versus Market. Theorists provide no clear role and form for planning in China's future economy, except to say that "macroeconomic regulation" should rely less on Stalinist-style, mandatory, quota-based administrative orders and that plan and market prices should be brought gradually closer together. They also speak favorably of policy planning and economic forecasting.

(~~LOU~~) In order to rationalize the "peaceful coexistence" of plans and markets, the reformers often employ a sort of economic mysticism to avoid the logical, practical, and political problems at hand. Academy of Social Sciences Vice President and top reform adviser Liu Guoguang, for example, describes three possible types of interaction between plan and market--the "plate-type model," the "infiltration model," and the "colloidal model":

--The first is the separation of market and planned economic activity into two discrete sectors with little interaction but also no direct conflict. This resembles the "quarantine" approach evident in the original Special Economic Zone (SEZ) policies and the "one nation, two systems" policy for reunification with Hong Kong, Macao, and Taiwan.

--The second echoes theories of economist Sun Yefang in proposing that plans respond to cues from activity in the marketplace while the market somehow conforms to the macroeconomic guidelines set forth in the plan. This theory suits the policy preferences of Chen Yun and others who insist that the plan remain primary and the market secondary.

--The third model Liu describes as a harmonious organic unity between market and plan, with overtones more Taoist than Marxist. The two sectors no longer work as identifiably separate functional units but instead act together as a sort of economic yin and yang of market-based micro-economic forces and plan-based macroeconomic forces.

(S) Liu politely suggests that these three models may represent not competing alternatives but stages of development, and China is currently passing from the second to the third stage. The latest official compromise formula, revealed at a planning and reform conference in early October, does reflect some movement toward the "marketeer" position. "The government regulates the market, and the market guides enterprises" is replacing "planned commodity economy" as the description of China's goal. Still, such slogans shed more light on evolving political boundaries than on concrete economic policies--which are still being hotly debated.

~~CONFIDENTIAL~~

UNCLASSIFIED

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

- 12 -

(c) Ownership. Determining the scope, role, and socialist nature of various types of ownership poses an even more difficult problem for reform theorists. The party congress reportedly will legitimize private enterprise for the first time. Theorists also allow for the expansion of apparently private control over property in two other ways. First, such phenomena as the contract responsibility system in the countryside and the leasing of public enterprises in the cities can exist because the actual ownership of the land or capital involved is still public while the economic activity is private. Thus, ownership and operation are separated and the socialist necessity of dominant public ownership of the means of production is satisfied. Similar limits apply to joint or solely owned foreign ventures, which can lease but not purchase land.

(LOW) The theorists fail to clarify what property rights such contracts ought to provide, however. Moreover, they avoid giving a clear limit for private or individual ownership during the initial stage of socialism, except to say that any amount that threatens the public dominance of the economy is too much. Zhao Ziyang's recent praise of 10 peasant entrepreneurs who operate collective, individual, or private enterprises shows that the reformers do not feel that threat yet.

(LOW) Distribution. As for the problem of income, most writers have placed great emphasis on the fact that the socialist principle of distribution according to work must be maintained in China. Reformers now also state, however, that the initial stage of socialism permits the existence of such honestly gained nonlabor income, as interest, stock dividends, and rents, formerly forbidden by socialist dogma. People also are being allowed to hire more than the handful of workers approved by Marx, under the unsupported assertion that this is not exploitation. Debate will focus increasingly on the numbers and arrangements for such hiring.

(LOW) Distribution will remain an extremely sensitive issue in an economy of shortages. Many worry that too much of the existing stock of assets will gravitate into the hands of a few. Some reform theorists nevertheless advocate full financial and labor markets that will allow a new breed of socialist entrepreneurs to take the risks, and to reap the high rewards, of boosting productivity in China's economy. They too, of course, reserve to the state the right to level out any "irrational" income disparities, probably by means of progressive taxation. Unfortunately, reform-minded theorists have found it difficult to convince critics that growing gaps in income are not equivalent to socioeconomic polarization where the few get richer and the majority get poorer. Given ingrained biases,

~~CONFIDENTIAL~~

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

UNCLASSIFIED

- 13 -

critics find it easy to argue that unqualified advocacy of personal enrichment will lead inevitably to increased corruption and social inequality.

Political Reform

(C) The initial stage theory has been interpreted by reformers to mean that not only the economic system but also China's political system, social relations, and culture are immature and in need of reform. Thus economic modernization, although essential, is not the only criterion for judging China's progress toward a more developed stage of socialism. Freedom and democracy are ends in themselves. Zhao's political science adviser, Yan Jiaqi, for example, has told academics that the initial stage theory has a dual aim--to create a commodity economy and democratic politics. In public, however, reformers tend to use the more utilitarian argument that democratic reform is an important means to economic rationality and efficiency.

(C) In 1986, some of the radical reformers even used the Swedish model to point the way to a non-Marxian democratic socialism, in which a high level of development and even distribution of benefits was achieved within a multiparty political system. Quite a few reformers proposed that China's Constitution already justified democratic elections and autonomy from party control for the people's congresses, to make them truly responsible to the people, from whom power should issue. They suggested that the current division of responsibility (judicial courts, executive State Council, and legislative National People's Congress) should be turned into a separation of powers, and that the current system of multiparty "consultation and supervision" should evolve into multiparty competition. In all, they challenged the Leninist myth that there is no serious conflict of interests within society and that the party adequately represents the shared interests of all the people.

(C) While these themes have been criticized by conservatives this year and thus have become muted, members of Zhao Ziyang's think tank--the Institute of Economic System Reform--have continued to explore ways of defining (read limiting) the party's responsibilities. The aim is to reduce the current unlimited party power monopoly, which reflects influences from both the traditional "feudal" order and Leninist-Stalinist insistence on "yiyuanhua" (absolute, uniform, highly concentrated central control).

(U) The Hong Kong press has reported that one version of Zhao's work report called for legitimation of mass organizations to articulate the existing plurality of interests in

~~CONFIDENTIAL~~

UNCLASSIFIED

~~UNCLASSIFIED~~ CONFIDENTIAL

- 14 -

society. The party no longer would be the sole channel of information, in control of all organizations, but would become a "broker" for coordinating their interests. Articles last summer by the director and the staff of Zhao's reform institute called for improved dialogue between social groups and spoke approvingly of Hungarian reforms dispensing with the system of special privileges for the party. They stressed the need to free up the channels for social mobility as one means of "cautiously coordinating the contradictions between different interest groups."

(6) When it comes to political reform, reformers of all stripes depart considerably from the more orthodox view, which can tolerate economic flexibility and diversity only so long as a strong Leninist party system is in place. Questioning of the superiority of this existing system cannot be allowed; any reform should merely strengthen it. This approach has been fortified within the Old Guard by the Cultural Revolution, which spawned social violence and anarchy in the name of democratic mass activism against the privileged party elite.

(LOU) Ironically, conservatives can use the initial stage theory to postpone democratic reforms by arguing that democracy must await a lengthy period of economic and cultural development. They view strict central political controls as essential to ensure unity and stability during the transition from poverty to abundance. Their viewpoint has been expressed throughout 1987 in articles insisting that the initial stage theory should retain the eighth Party Congress definition of "the principal contradiction" facing China--the discrepancy between backward production levels and the increasing material needs of society. By implication, all social conflict can be sourced to poverty and can be resolved by increasing material wealth. Proponents of this view insist that there be no reform for the sake of reform, but that all reforms must directly serve economic development, thus relegating political change to the margin.

(LOU) Judging from the media debate, some reformers are indirectly refuting this view by suggesting that no definition of the principal contradiction be included in the official version of the initial stage theory. Others are more boldly countering this interpretation by spelling out a complex, pluralistic interpretation of society that posits quite a few conflicts of interest that will not be resolved simply and automatically by economic development. These conflicts include those between: individuals, collectives, and the state; corrupt or criminal elements and the majority of citizens; those getting rich sooner and those getting rich later; leaders' bureaucratism and the masses; and the defects of the current political system and democracy.

—CONFIDENTIAL—

~~UNCLASSIFIED~~

~~CONFIDENTIAL~~

- 15 -

UNCLASSIFIED

(C) Deng Xiaoping's recent critique of Western democracies as "less efficient" than democratic socialism and his talk of a 15-year timetable for political reform is a reversion to the orthodox view that political reform must take a backseat. In 1987, reflecting this trend, talk of political reforms to be introduced after the 13th Party Congress has focused on the margin: rejuvenation of the leadership through retirements and promotions; streamlining the bureaucracy; and delegating authority through decentralization and consultation. Proposals for restructuring government planning organs and industries have been delayed again by heated controversy.

(C) One key aspect of political reform efforts since Mao's death--diffusion of authority at the top--tends to run against the interests of reformers at the moment. Current reports suggest that the party congress will rejuvenate the Politburo and its standing committee and approve yet another effort to streamline the State Council and strengthen its autonomy. And yet, the party elders will retain important posts not clearly accountable to the younger party and state leadership. Thus, Deng Xiaoping will remain as chief elder but, by giving up the chairmanship of the Advisory Commission, will have to share even more power than before. Zhao Ziyang, although officially top party leader, may end up with strong limits on his influence--from the elders, from a more independent State Council not controlled by his loyalists, and from a weakened Secretariat newly constrained to party affairs. At lower levels of the system, in the immediate future at least, intermittent moralistic campaigns against bureaucratism and corruption are more likely to characterize "party building" than tough legal checks on power or a loosening of the party throttlehold on personnel decisions.

Prospects

(C) Reformers apparently hope that at the Congress an official endorsement of the initial stage theory, and a general statement of intent to pursue political reform, will keep the door open for resuming progress afterward. Judging from reformist articles in the press, the top priorities will be:

- further reducing central and local government intervention in management of economic enterprises, especially in appointing managers;
- instituting new performance-centered regulations for recruiting, paying, promoting, and demoting officials;
- continuing legal reform to legislate regulations and educate the populace regarding legal rights and procedures;

~~CONFIDENTIAL~~

UNCLASSIFIED

~~UNCLASSIFIED~~ ~~CONFIDENTIAL~~

16307

- 16 -

- expanding expert involvement in the policy process;
- returning to the "100 flowers" liberalization policy in all intellectual endeavors, including the social sciences and policy research, not just in the "arts";
- increasing the autonomy and freedoms of socioeconomic and professional organizations to define and defend their interests; and
- reducing privileged access by officials to food, housing, transportation, travel, and consumer goods.

(FOUO) The most controversial issue--reducing party involvement in government, economic, and social organizations--likely will not be resolved at the congress. Although one Hong Kong press report claims that a constitutional amendment is being considered that would abolish party "fractions" or leading groups in government bodies, earlier such proposals since at least 1981 to remove party committees from factories, universities, and research institutes always met with vehement opposition. It is more probable that this idea will once again be put aside along with its former main proponent, Hu Yaobang.

Prepared by Carol Lee Hamrin and Christopher F. Wurzel
647-3981

Approved by Richard A. Clarke
647-2402

~~CONFIDENTIAL~~

~~UNCLASSIFIED~~